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Organizing a CDFI to Serve Native Communities



OPPORTUNITYFINANCE NETWORK 

Today's Session Focus

- Best practices in building a CDFI with staying power in Indian Country.
- Determining mission & vision, type of CDFI, legal infrastructure, community support, market analysis, technical assistance, developing programs, creating systems, Tribal legislative & judicial arrangements, dedicated leaders/staff, raising money, lending and gaining CDFI Certification.



Presenter & Panelists



- Kristi Bias, First Nations Oweesta Corporation
- Sean Winters, Chi Ishobak, Inc.
- Lahoma Simmons, Mvskoke Loan Fund
- Sarah Sanders, Independent Consultant

Introductions



- What would you like to learn during this session?
- Do you currently work in Tribal Planning or Economic Development?
- Do you have CDFI or Lending Experience?



What would you like to accomplish with a CDFI for your community and how does it fit with overall community economic development efforts?

LETS HEAR FROM OUR PANELISTS

Scope of the Problem

Economically Distressed Native Communities



- Dollars Leaving the Native Community
- Lack of Financial Education & Financial Resources
- Lack of Access to Capital for Business & Homeownership
- Lack of Adequate Infrastructure/Trust Land Challenges

Solving the Problem

- Develop private sector economy
- Increase Business & Homeownership
- Provide access to *affordable* capital and financial services
- Network of support organizations
- Government programs aren't enough!!!



Solving the Problem

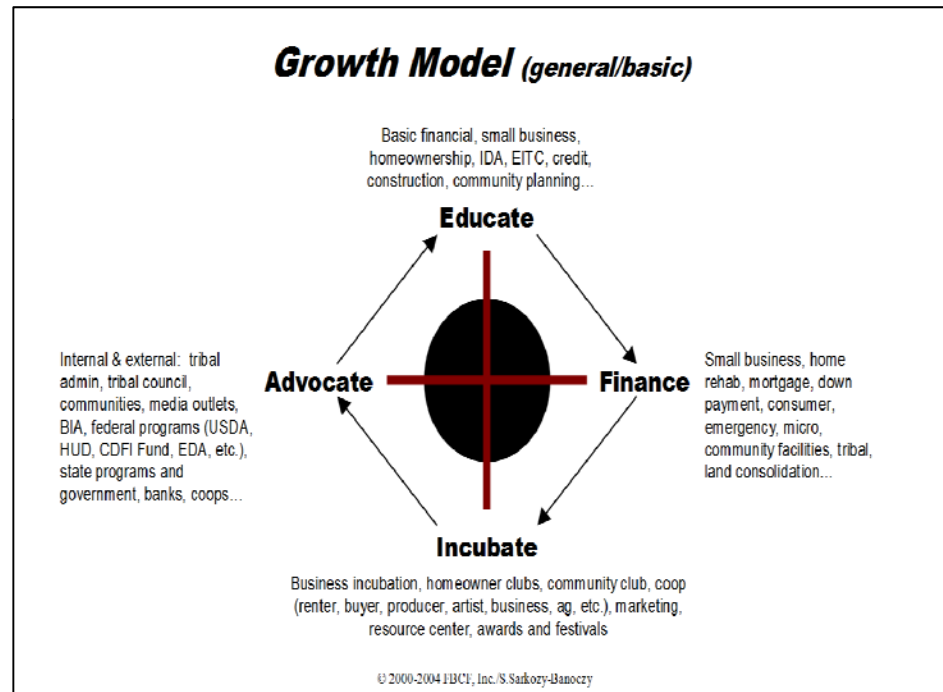
- Infrastructure to support economy
 - Physical
 - Financial
 - Social

- Investing, believing and advocating for those making it happen:
 - Private/Tribal businesses & homeowners
 - Support organizations: Banks, SBDC's, Housing Authorities, Workforce Development...



Solving the Problem

- See supplemental document:



Exercise: Community Resources



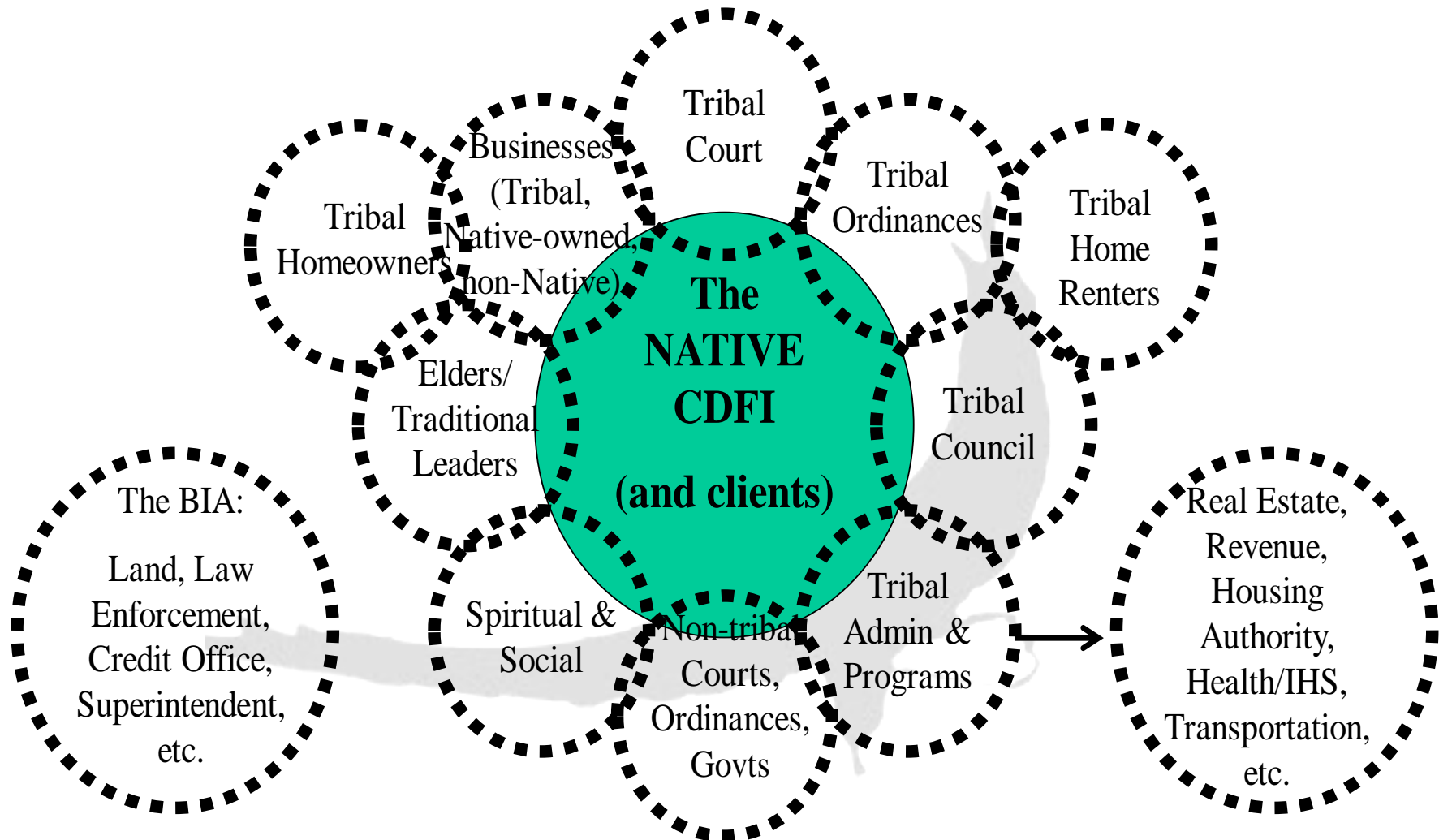
List all the programs and organizations you are aware of in your community that support the following community/economic development areas?

- Business Development
- Housing
- Community Facilities
- Financial Services (*loans, deposit accounts, etc.*)



Where are the gaps?

The Native CDFI Local Development Environment:



How CDFIs Do It Differently

- Community Focus
- Individual Attention
- Market Knowledge
- Patient, Persistent, Hard Work
- Leadership



Development Services

- The Development Services/TA provided depends on needs of target market
- Conventional financial institutions do not provide this service
- TA provided both before and after making a loan
- You may develop your own unique types of TA to support your loans, your mission
- To receive CDFI certification you must provide TA to clients



Types of CDFI Loan Products



- Small Business Lending
 - Micro loans (typically under \$35,000)
 - Small business loans

- Mortgage Lending
 - Down payment assistance loans
 - Closing cost loans
 - 1st mortgages
 - Home equity lines of credit

- Other
 - Credit builder loans
 - Consumer loans
 - Community facilities

What is Involved in Starting a Native CDFI?

- Determining mission and product
- Determining type of CDFI
- Legal Infrastructure
- Community support
- Tribal legislative and judicial arrangements
- Dedicated leaders and staff
- Creating systems
- Raising money
- Gaining certification



Mission Statement



- Four Components:
 - Who?
 - What?
 - How?
 - And for good measure, Why?

- **CDFI of the Tohono O'odham Nation:**

To preserve O'odham values, way of life, and to enhance the economic diversity of the Tohono O'odham Nation by providing financial and development services, encouraging and fostering economic growth.

CDFI Types Vary by:



- General purpose
- Start up considerations
- Governance and ownership
- Regulatory considerations

Legal Infrastructure

- Articles of Incorporation
 - Separate entity, subsidiary, or part of an existing corporation (or part of a Tribal program)?

- By-laws
 - Rules of governance
 - How the Board gets picked, term limits
 - Board roles and responsibilities

- Non-profit status 501(c)3

- What does it mean to be regulated? Unregulated (self-regulated)?





What were some of your key first steps & lessons learned in Building a Native CDFI?

PANELISTS...

CDFI Market Analysis: what it is?

- Studies the needs and demands of financial services in your community
- Studies the needs and demands of development services in your community
- Compares needs and demands with financial and development services that are available



CDFI Market Analysis: why do you need it?

The market analysis
is the foundation
for developing
a lending program!



CDFI Market Analysis: why do you need it?

- Identifies products & TA
- Identifies who will offer the products & TA
- Identifies systems to deliver these products
- Determines if your community 'qualifies'
- Helps with fundraising
- Helps you to better understand strengths or weaknesses



Need and Demand



- **Need:**

What does the population of your market area need to improve quality of life and move into economic mainstream?

- **Demand:**

What products are your customers ready to use (afford, manage, succeed with)?

CDFI Market Analysis: what do you want to know?

- The needs you want to address
- Where you are going to focus your efforts?
- What is realistic and has a likelihood of succeeding?
- WHO (if anyone) is doing the work in the community?!



Leaders

- Make it all work
- Need community's trust
- Must be comfortable with new ideas
- Need time to do the work
- Eventually need a Board and staff



2009 Circle of Honor Award Winner –
Cook Inlet Lending Center

What Does the Board Do?



- Determines strategic direction and goals
- Evaluates performance versus goals
- Meets fiduciary responsibilities

CDFI Board needs to:

- Manage risks
- Have fiduciary responsibility
- Prevent conflict of interest and self-dealing
- Assist with fundraising
- Hire, evaluate, advise, supervise, and, (if needed) fire the executive director
- Promote the organization
- Make Policy (not day to day procedure)



Right people for the CDFI Board

It is important to ensure a combination of perspectives are included in decision-making:

- Your communities
- Educators
- Elders
- Former business owners
- TA providers (partners)
- Investors
- Prior borrowers (i.e. small business representatives)
- Local bankers

A variety of expertise/experience is important due to the special issues that a CDFI Board must deal with:

- Community organizing
- Government operations
- Lending
- Investing
- Running a small business/CDC
- Technical assistance providers
- Not-for-profit management



Policies

- Policies define the framework by which a CDFI operates
- Critical CDFI policies include:
 - Loan policies
 - Financial management policies
 - Conflict of interest policies
 - Personnel policies
 - Travel and expense policies



Systems

Strong systems are key successful CDFIs



- Appropriate policies
- Detailed procedures
- Checks & balances
- Use of industry best practices & tools
- Strong governance docs



Don't recreate
the wheel!

Money is a CDFI's "inventory"



There are two main types:

- **Operating** funds pay for expenses including salary, rent, etc.
- **Capital** is the funds that are lent or invested in the community.
 - Equity
 - Debt



Funds for my CDFI

- Fundraising or “Capitalization” entails identifying sources and types of funds, as well as engaging in capital planning:
 - Essential to have a strategy regarding type of capital & how the funds will be used
 - Consider the mix of funds you obtain & how they affect the overall financial position
 - Be aware of the “strings attached” to capital, if not, this will lead to headaches!



Where Do CDFIs Get Their Money?

Federal Government

CDFI Fund (Treasury)

- Awards for capital and TA

USDA Rural Development

- Awards for capital
- Grants for TA
- RBOG, RBEG, IRP



SBA Microenterprise Program

- Loans for capital
- Grants for TA

HUD Rural Housing and Economic Development

- Grants for capital and operating

Commerce Department Economic Development Administration

- Grants for capital and operating

Administration for Native Americans (HHS)

- Grants for capital and operating

Where Do CDFIs Get Their money?

Tribes

- Economic development set asides
- Gaming

Foundations (loans and grants)

- Local and regional



Banks (loans and grants)

Other CDFIs

- Oweesta
- Opportunity Finance Network

Companies

- Utility
- Energy
- Large companies serving your target market

Private investors

CDFI Certification



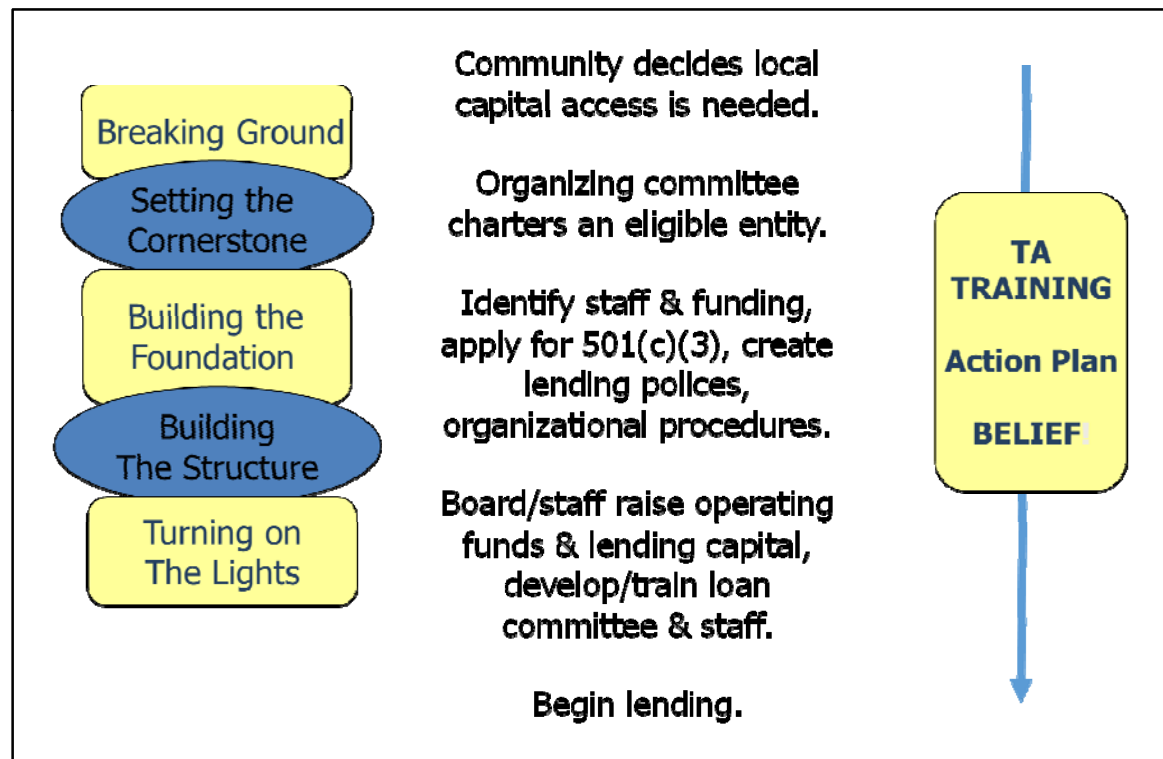
- What does it get you?
 - Access to CDFI Fund dollars
 - Credibility

- What is it?
 - Meet CDFI Fund eligibility criteria
 - Primary mission
 - Financing entity
 - Target market
 - Development services
 - Accountability
 - Non-government entity

CDFI Formation



- See supplemental document:



Successful CDFIs Are:

- Non-political
- Entrepreneurial
 - Efficient
 - Market Oriented
- Skilled staff
- Sufficiently capitalized
- Accountable to borrowers
- As concerned about TA as lending



What Is the Hardest?

- Support/buy-in from Tribe and community
- Independence in making financing decisions
- Place to work
- People and time to do the work
- Developing a market – finding the lending deals
- Identifying funding





What was the hardest?
PANELISTS...

Customized Technical Assistance



Tailored to your needs:

- Working with Tribal government
- Developing a market analysis
- Selecting, organizing, training your board
- Creating documents and policies
- Designing loan policies and products
- Capitalization plan
- Strategic planning
- Other focus as needed

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The potential is exciting...



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Questions? Comments?

